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New Income Tax Exclusion for Military Killed In the Line of Duty

FRANKFORT, Ky.—Legislation enacted during the 2006 General Assembly includes a tax exemption for all income earned by soldiers killed in the line of duty.

HB 380, the biennial budget bill, amended KRS.141.010, Section 16 to: "exclude all income from all sources for active duty and reserve members and officers of the Armed Forces of the United States or National Guard who are killed in the line of duty, for the year during which the death occurred and the year prior to the year during which the death occurred. For the purposes of this paragraph, all income from all sources shall include all federal and state death benefits payable to the estate or any beneficiaries."

The changes are applicable for tax years beginning after December 31, 2001. The income exclusion applies to all income from all sources of the decedent, not just military income.

Amended returns may be filed for the year the soldier was killed in the line of duty and the year prior to the year of death. The amended returns must be filed within the statute of limitations period; four years of the due date, the extended due date or the date the tax was paid, whichever is later.

If a combined return was filed, the exclusion would apply to the income reported in Column A or Column B of the Kentucky return attributable to the military member. If a joint return was filed, the income must be separated accordingly. Refunds will be issued in the names on the original return.

Beneficiaries or estates that received death benefits that were included in a Kentucky return may file an amended return to request a refund of taxes paid on the benefit.

"I want to thank Governor Ernie Fletcher and the Kentucky General Assembly for passing this bill," said Maj. Gen. Donald C. Storm, Adjutant General for Kentucky. "This legislation will greatly assist the families of our fallen service members. Our military families have made many sacrifices during the global war on terror and I applaud the leadership of this great commonwealth for doing the right thing."

The Department of Revenue will use the Veterans Administration's definition for "in the line of duty," which is in active military service, whether on active duty or on authorized leave, unless the death was the result of the person's own willful misconduct.

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